

**REPORT OF THE AUDIT OF THE  
LESLIE COUNTY  
SHERIFF'S SETTLEMENT - 2009 TAXES**

**For The Period  
September 29, 2009 through April 16, 2010**



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Jimmy Sizemore, Leslie County Judge/Executive

Honorable Paul Howard, Leslie County Sheriff

Members of the Leslie County Fiscal Court

The enclosed report prepared by Morgan-Franklin, LLC, presents the financial statement of the Leslie County Sheriff's Settlement - 2009 Taxes for the period September 29, 2009 through April 16, 2010.

We engaged Morgan-Franklin, LLC to perform the audit of this financial statement. We worked closely with the firm during our report review process; Morgan-Franklin, LLC evaluated the Leslie County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Crit Luallen

Auditor of Public Accounts

Enclosure





**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
LESLIE COUNTY  
SHERIFF'S SETTLEMENTS - 2009 TAXES**

**For The Period  
September 29, 2009 through April 16, 2010**

Morgan-Franklin, LLC has completed the audit of the Sheriff's Settlements - 2009 Taxes for the Leslie County Sheriff for the period September 29, 2009 through April 16, 2010. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$3,568,165 for the districts for 2009 taxes, retaining commissions of \$148,015 to operate the Sheriff's office. The Sheriff distributed taxes of \$3,413,062 to the districts for 2009 taxes. Taxes of \$6,328 are due to the districts from the Sheriff.

**Report Comments:**

- 2009-01 The Sheriff's Office Lacks Adequate Segregation Of Duties
- 2009-02 The Sheriff Should Improve Internal Controls Over Tax Processing And Reconciliation Procedures
- 2009-03 Daily Deposits Should Be Made Intact
- 2009-04 The Sheriff Should Not Advance Commission Payments To The Fee Account
- 2009-05 The Sheriff Should Process Franchise Bills Correctly
- 2009-06 The Sheriff Should Process Exonerations Correctly
- 2009-07 The Sheriff Should Strengthen Internal Controls Over The Collection Of Add-On Fees
- 2009-08 The Sheriff Has A Known Deficit Of \$3,046 In His Official Tax Account
- 2009-09 The Sheriff Should Make Interest Payments To The School And The Fee Account In A Timely Manner

**Deposits:**

The Sheriff's deposits as of December 11, 2009 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$667,171

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.



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To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Jimmy Sizemore, Leslie County Judge/Executive

Honorable Paul Howard, Leslie County Sheriff

Members of the Leslie County Fiscal Court

Independent Auditor's Report

We have audited the Leslie County Sheriff's Settlements - 2009 Taxes for the period September 29, 2009 through April 16, 2010. This tax settlement is the responsibility of the Leslie County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Leslie County Sheriff's taxes charged, credited, and paid for the period September 29, 2009 through April 16, 2010, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated June 27, 2011 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Lori H. Flanery, Secretary  
Finance and Administration Cabinet  
Honorable Jimmy Sizemore, Leslie County Judge/Executive  
Honorable Paul Howard, Leslie County Sheriff  
Members of the Leslie County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2009-01 The Sheriff's Office Lacks Adequate Segregation Of Duties
- 2009-02 The Sheriff Should Improve Internal Controls Over Tax Processing And Reconciliation Procedures
- 2009-03 Daily Deposits Should Be Made Intact
- 2009-04 The Sheriff Should Not Advance Commission Payments To The Fee Account
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- 2009-07 The Sheriff Should Strengthen Internal Controls Over The Collection Of Add-On Fees
- 2009-08 The Sheriff Has A Known Deficit Of \$3,046 In His Official Tax Account
- 2009-09 The Sheriff Should Make Interest Payments To The School And The Fee Account In A Timely Manner

Our audit was conducted for the purpose of forming an opinion on the financial statements referred to in paragraph one. The accompanying schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Respectfully submitted,

*Morgan - Franklin, LLC*

Morgan-Franklin, LLC

June 27, 2011

LESLIE COUNTY  
PAUL HOWARD, SHERIFF  
SHERIFF'S SETTLEMENT - 2009 TAXES

For The Period September 29, 2009 Through April 16, 2010

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 225,594	\$ 453,832	\$ 721,529	\$ 227,459
Tangible Personal Property	103,981	215,022	248,399	291,254
Fire Protection	3,563			
Increases Through Exonerations	245	628	784	247
Additional Billings	515	989	1,520	443
Oil and Gas Property Taxes	148,931	288,016	476,334	150,162
Franchise Taxes	36,335	75,055	87,436	
Penalties	4,377	8,593	13,349	4,440
Adjusted to Sheriff's Receipt	3,130	2,767	3,368	(142)
 Gross Chargeable to Sheriff	 526,671	 1,044,902	 1,552,719	 673,863
 <u>Credits</u>				
Exonerations	2,756	5,357	9,036	2,779
Discounts	7,372	14,627	21,790	10,689
Delinquents:				
Real Estate	21,504	42,015	68,777	21,682
Tangible Personal Property	193	400	462	551
 Total Credits	 31,825	 62,399	 100,065	 35,701
 Taxes Collected	 494,846	 982,503	 1,452,654	 638,162
Less: Commissions *	21,031	41,756	58,106	27,122
 Taxes Due	 473,815	 940,747	 1,394,548	 611,040
Taxes Paid	471,996	938,117	1,392,802	610,147
Refunds (Current and Prior Year)	109	207	335	109
 Due Districts		**		
as of Completion of Audit	\$ 1,710	\$ 2,423	\$ 1,411	\$ 784

\* And \*\* See Next Page.

The accompanying notes are an integral part of this financial statement.

LESLIE COUNTY  
PAUL HOWARD, SHERIFF  
SHERIFF'S SETTLEMENT - 2009 TAXES  
For The Period September 29, 2009 Through April 16, 2010  
(Continued)

\* Commissions:

4.25% on \$ 2,115,511  
4% on \$ 1,452,654

\*\* Special Taxing Districts:

Library District	\$ 1,160
Health District	459
Extension District	639
Soil Conservation District	131
City of Hyden	34

Due Districts	<u>\$ 2,423</u>
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LESLIE COUNTY  
NOTES TO FINANCIAL STATEMENT

April 16, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue, which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue, which are recognized when there is proper authorization. Taxes paid are uses of revenue, which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Leslie County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

LESLIE COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 April 16, 2010  
 (Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 16, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of December 11, 2009, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured                      \$667,171

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2009. Property taxes were billed to finance governmental services for the year ended June 30, 2010. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 2, 2009 through April 16, 2010.

B. Oil and Gas Taxes

The collection period for 2009 oil and gas taxes was November 4, 2009 through May 17, 2010.

Note 4. Interest Income

The Leslie County Sheriff earned \$698 as interest income on 2009 taxes. As of June 24, 2011, the Sheriff owed \$279 in interest to the school district and \$419 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Leslie County Sheriff collected \$20,652 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office.

Note 6. Subsequent Events

Subsequent events have been evaluated through June 27, 2011, which is the date the financial statements were available to be issued.

Note 7. Sheriff's Settlement – 2009 Unmined Coal Taxes

The Sheriff maintained one bank account for regular and unmined coal tax collections. Therefore, the Schedule of Excess of Liabilities Over Assets presented on page 7 includes the refunds due the sheriff as presented in the Sheriff's Settlement – 2009 Unmined Coal Taxes Audit.

LESLIE COUNTY  
PAUL HOWARD, SHERIFF  
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

For The Period September 29, 2009 Through April 16, 2010

Assets

Cash in Bank ( All Tax Accounts)	\$ 1,069,751
Deposits in Transit	5,276
Receivables:	92,934
Due From School Board - Tax Commissions	858
Due From Fee Account - Overpayment of Commissions	805
State - UMC	352
County - UMC	347
School - UMC	1,193
Library - UMC	94
Health - UMC	115
Extension - UMC	182
Soil Conservation - UMC	34
	<hr/>
Total Assets	1,171,941

Liabilities

Paid Obligations-		
Outstanding Checks	\$ (673,262)	
Liabilities	(494,699)	
	<hr/>	
Total Paid Obligations		(1,167,961)
Unpaid Obligations-		
Other Taxing Districts-		
State - STS	(784)	
County - STS	(1,710)	
School - STS	(1,411)	
Library - STS	(1,160)	
Health - STS	(459)	
Extension - STS	(639)	
Soil Conservation - STS	(131)	
Hyden - STS	(34)	
Interest Due Sheriff's Fee Account	(419)	
Interest Due School District	(279)	
	<hr/>	
Total Unpaid Obligations		<hr/> (7,026)
Total Liabilities		<hr/> (1,174,987)
Total Fund Deficit as of April 16, 2010		<hr/> <hr/> \$ (3,046)

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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The Honorable Jimmy Sizemore, Leslie County Judge/Executive  
Honorable Paul Howard, Leslie County Sheriff  
Members of the Leslie County Fiscal Court

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Leslie County Sheriff's Settlements - 2009 Taxes for the period September 29, 2009 through April 16, 2010, and have issued our report thereon dated June 27, 2011. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Leslie County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Leslie County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Leslie County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2009-01, 2009-02, 2009-03, 2009-04, 2009-05, 2009-06 and 2009-07 to be material weaknesses.

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Leslie County Sheriff's Settlements - 2009 Taxes for the period September 29, 2009 through April 16, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2009-08 and 2009-09.

The Leslie County Sheriff's responses to the findings identified in our audit are described in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Leslie County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

*Morgan - Franklin, LLC*

Morgan-Franklin, LLC

June 27, 2011

## COMMENTS AND RECOMMENDATIONS



LESLIE COUNTY  
PAUL HOWARD, SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Period September 29, 2009 Through April 16, 2010

**INTERNAL CONTROL - MATERIAL WEAKNESSES:**

**2009-01 The Sheriff's Office Lacks Adequate Segregation Of Duties**

**Condition:** While reviewing the Sheriff's internal control procedures, we identified a lack of adequate segregation of duties over recordkeeping, receipts and disbursements processes, and reconciliations. These control deficiencies are present because one office clerk's duties include receiving tax payments from taxpayers, entering tax payments in the computerized system, preparing the daily deposit, and preparing the daily checkout sheet. The office manager's duties include receiving tax payments from taxpayers, entering tax payments in the computerized system, preparing the daily deposit, preparing the daily checkout sheet, preparing the monthly tax reports, preparing disbursement checks, and performing the monthly bank reconciliations.

**Criteria:** A proper segregation of duties over accounting functions, such as receiving tax payments, preparing the daily deposit, preparing the daily checkout sheet, preparing the monthly tax reports, preparing disbursement checks, and reconciling the bank account monthly, is essential for preventing misappropriation of assets and/or inaccurate financial reporting. In addition, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

**Effect:** The lack of adequate segregation of duties and/or compensating controls allowed the following material weaknesses and/or noncompliance(s) to occur and not be detected or corrected in a timely manner:

- Weak internal controls over tax processing and reconciliations resulted in discrepancies found in daily and monthly accounting records and reports
- Daily deposits do not appear to have been made intact
- Improper advance of commissions to the fee account were made
- Improper processing of exonerations
- Improper processing of franchise tax bills
- Weak internal controls over add-on-fees
- A known deficit of \$3,046 in the Sheriff's official tax account
- Interest payments not made in a timely manner

**Cause:** Inadequate segregation of duties and lack of compensating controls.

LESLIE COUNTY  
PAUL HOWARD, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Period September 29, 2009 Through April 16, 2010  
(Continued)

**INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)**

**2009-01 The Sheriff's Office Lacks Adequate Segregation Of Duties (Continued)**

**Recommendation:** To adequately protect against misappropriation of assets and/or inaccurate financial reporting, the Sheriff should separate the duties involving collecting tax payments from customers, entering tax payments in the computer system, preparing deposits, preparing daily checkout sheets, preparing monthly tax reports, preparing disbursements, and reconciling the bank account. If, due to a limited number of staff, that is not feasible, strong oversight over these areas should occur and involve an employee not currently performing any of those functions. Additionally, the Sheriff could provide this oversight. If the Sheriff chooses to implement compensating controls, the Sheriff should document his oversight on the appropriate source document. The following are examples of other controls the Sheriff could implement:

- The Sheriff, or his designee, could periodically recount and deposit cash receipts. This could be documented by initialing the daily checkout sheet and deposit slip.
- The Sheriff, or his designee, could periodically compare batched totals, to the daily tax collection report, cash register total and to the deposit slip, resolve any discrepancies and document the review by initialing the deposit ticket.

The Sheriff, or his designee, could compare total tax collections per the monthly reports to the totals per daily collection reports, resolve any discrepancies, and document his review by initialing the reports

*Sheriff's Response: We will work to place compensating controls in place.*

**2009-02 The Sheriff Should Improve Internal Controls Over Tax Processing And Reconciliation Procedures**

**Condition:** While performing the audit, we identified material weaknesses related to daily tax processing and reconciliation procedures that resulted in discrepancies in the Sheriff's tax records. Triplicate receipts were used to record payments from taxpayers, issue receipts to taxpayers, and comprise daily batches. Tax payments were then manually entered into the computer system. Entry of payments may or may not have been entered in the computer system at the time payment was received, depending on workload and/or employee availability within the Sheriff's office. Deposits for each day's collections were prepared at the end of each day and deposited into the night deposit at the bank. At the end of each day, triplicate receipts were batched, the cash register was totaled out and a daily checkout sheet was prepared.

**Criteria:** Effective internal controls over daily and monthly tax processing should be designed to ensure accurate financial reporting and should be implemented consistently. Specifically, batches of triplicate receipts should agree to daily deposits and should be reconciled computerized records on a daily and monthly basis. Reconciliation procedures should be sufficient to verify computerized records generated accurately reflect manual records, such as triplicate receipts and daily deposits.

LESLIE COUNTY  
PAUL HOWARD, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Period September 29, 2009 Through April 16, 2010  
(Continued)

**INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)**

**2009-02 The Sheriff Should Improve Internal Controls Over Tax Processing And Reconciliation Procedures (Continued)**

**Effect:** Ineffective controls hindered reconciliations in such a way that the auditors noted:

- The Sheriff's office paid the Sheriff's commissions to the Districts for February 2010 collections.
- The Sheriff's office paid the Library \$10,791 more than taxes due to the District for March 2010 collections.
- Of the five daily deposits viewed, none of the cash register totals agreed to the deposit report from Tax Master for that day or the amount actually deposited.
- The results of our audit noted a known deficit in the Sheriff's tax account; however, because of the internal control weaknesses previously described, auditors were unable to determine the nature or cause of the shortage.

**Cause:** The Sheriff did not design internal control procedures to ensure errors or misstatements would be detected in a timely manner.

**Recommendation:** We recommend the Sheriff design and implement internal control procedures to detect errors or misstatements in a timely manner. Such procedures should include batching triplicate receipts at the same time the daily deposit is prepared. Tax payments should then be entered in the computer system promptly so that computerized records can be reconciled to the corresponding daily batch, daily checkout sheet, and daily deposit. On a monthly basis, total collections per daily batches should be reconciled to the monthly tax reports and bank statements.

*Sheriff's Response: Compensating controls were placed in effect during 2010-2011. We daily reconcile Batch reports.*

**2009-03 Daily Deposits Should Be Made Intact**

**Condition:** Daily deposits do not appear to have been made intact.

**Criteria:** Effective internal control procedures over daily deposits require that deposits be made intact and contain all cash and checks received for payments.

**Effect:** While performing the audit, we identified material weaknesses related to the preparation of daily deposits that suggests deposits were not made intact. Auditors noted:

- Daily deposits were modified frequently. Of the 36 deposits viewed, auditors noted four (4) instances in which amounts recorded on deposit slips were changed.
- Of the Thirty-six (36) daily deposits viewed, thirty-one (31) contained cash. All thirty-one containing cash contained no coins and were divisible by \$5.

LESLIE COUNTY  
PAUL HOWARD, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Period September 29, 2009 Through April 16, 2010  
(Continued)

**INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)**

**2009-03 Daily Deposits Should Be Made Intact (Continued)**

In consideration of the uniqueness of tax amounts due from taxpayers, it appears unlikely that deposits contained all monies received from taxpayers.

**Cause:** The Sheriff did not design internal control procedures to ensure deposits were made intact and agreed to daily batches, cash register totals and daily checkout sheets. In addition, the lack of adequate segregation of duties within the Sheriff's office allowed the irregularities noted above to occur.

**Recommendation:** We recommend the Sheriff design and implement internal control procedures to ensure daily deposits are made intact.

*Sheriff's Response: We will comply.*

**2009-04 The Sheriff Should Not Advance Commission Payments To The Fee Account**

**Condition:** The Sheriff advanced commission payments to the fee account.

**Criteria:** KRS 134.170(3) states, "Other than for investments and expenditures permitted by KRS 134.140, the Sheriff shall not apply or use any money received by him for any purpose other than that for which the money was paid or collected."

Commission amounts paid to the fee accounts should agree to commission amounts collected per monthly tax reports, exclusive of the school district. In no circumstances, should commissions be advanced to the fee account before being earned and/or collected.

**Effect:** During our reconciliation of commission payments to the Sheriff's fee accounts, we determined the Sheriff improperly advanced commissions to the fee account before being earned and/or collected. For instance, in January 2010 the Sheriff paid \$45,817 to his Fee accounts, however, only \$27,819 was earned as commissions on December's collections. This created an overpayment to the 2010 fee account of \$18,000. In subsequent months amounts paid to the 2010 fee account were less than commissions actually earned. In total, it appears that the Sheriff overpaid \$805 of commissions to his 2010 Fee account.

**Cause:** Management override of procedures and existing internal controls over disbursements of tax commissions.

**Recommendation:** We recommend the Sheriff strengthen internal controls over reconciliations and disbursements to ensure commissions paid to the fee account are accurate and agree to monthly reports, exclusive of the school district. In those instances where it becomes necessary to pay tax commissions to the fee account prior to the end of the month, the Sheriff should determine the amount earned at that point and not pay any amounts in excess of what has been earned. When the monthly tax collection reports are prepared and taxes remitted to the taxing districts, the Sheriff could then reconcile the amount of commissions due at the end of the month by taking the amount due for the month less amount previously paid.

LESLIE COUNTY  
PAUL HOWARD, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Period September 29, 2009 Through April 16, 2010  
(Continued)

**INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)**

**2009-04 The Sheriff Should Not Advance Commission Payments To The Fee Account (Continued)**

*Sheriff's Response: We will comply.*

**2009-05 The Sheriff Should Process Franchise Bills Correctly**

**Condition:** The Sheriff Should Process Franchise Bills Correctly

**Criteria:** The Sheriff's internal controls should have ensured that billings mailed to taxpayers reflected the correct amount due, as certified by the County Clerk.

**Effect:** Of the three franchise bills tested:

- 1) The Sheriff generated a bill for the face amount, however, the bill certified by the clerk allowed for a 2% discount, face and 5% penalty amounts. The bill was paid during the 5% penalty collection period; however, the face amount was collected by the Sheriff.
- 2) The Sheriff generated a bill that reflected the discount, face and penalty dates of the regular tax collections for the 2008 tax year, however, the bill certified by the clerk reflected discount, face and penalty amounts beginning 30 days after the date the bill was prepared by the clerk. For example, the discount was permitted through November 30, 2008 per the bill the Sheriff prepared, but was permitted through January 8, 2010. The taxpayer should have paid the face amount based on the payment schedule certified by the Clerk, but paid the bill at the 5% penalty rate.
- 3) The Sheriff generated a bill that reflected the discount, face and penalty dates of the regular tax collections for the 2008 tax year. The bill certified by the clerk did not allow for a discount. The bill was paid at the discounted rate

**Cause:** The lack of internal controls within the Sheriff's office permitted taxpayers to pay improperly generated franchise tax bills. By doing so, taxing districts and the Sheriff's fee account did not receive the appropriate amount of collections.

**Recommendation:** In the future, the Sheriff should implement internal control procedures to ensure billings provided to taxpayers reflect total amounts due. Procedures should also require comparison of amounts due to amounts paid.

*Sheriff's Response: We will comply.*

**2009-06 The Sheriff Should Process Exonerations Correctly**

**Condition:** The Sheriff Should Process Exonerations Correctly

**Criteria:** Exonerations entered into the Sheriff's tax program should agree to the original court order correcting erroneous assessments.

LESLIE COUNTY  
PAUL HOWARD, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Period September 29, 2009 Through April 16, 2010  
(Continued)

**INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)**

**2009-06 The Sheriff Should Process Exonerations Correctly (Continued)**

**Effect:** During our audit we noted the following:

- 1) Bill # 1739 – the decrease assessment per the exoneration list printed from tax master was 156,100, but the original order correcting erroneous assessment was for 151,600.
- 2) Bill # 4081 – the decrease assessment per the exoneration list printed from tax master was 45,000, but the original order correcting erroneous assessment was for 16,000.
- 3) Bill # 4649 – the decrease assessment per the exoneration list printed from tax master was 0, but the original order correcting erroneous assessment was for 20,000.
- 4) Bill # 9460 - this bill was not included on the exoneration list printed from tax master, but there is an original order correcting erroneous assessment for a decrease of 30,000.
- 5) Bill #s 6379 and 135 were included on the exoneration list, however, these bills were exonerated after the transfer date. 6379 was exonerated on 9/2/10 and bill 135 was exonerated on 4/23/11.

**Cause:** Lack of adequate internal controls over the processing of exonerations.

**Recommendation:** We recommend that the Sheriff strengthen his internal controls over the processing of exonerations. The Sheriff could have an employee not involved in the processing of exonerations to compare the exoneration list printed from the tax program to the original court orders correcting erroneous assessments on a monthly basis.

*Sheriff's Response: This occurred when tax bills were entered into tax Master. We were unaware that discounts do not apply to these payments.*

**2009-07 The Sheriff Should Strengthen Internal Controls Over The Collection Of Add-On Fees**

**Condition:** During our testing of add-on fees, we noted that some tax payments were paid at the discount, face and 5% penalty rates even though the report was printed for payments received after the 10% penalty rate should have applied. It appears that payments are being made on one day and entered into the computer on another. For instance, one payment was entered into the computer as being paid on 2/23/2010, however, the payment was actually marked as paid on 11/28/2009. Data entry errors such as this would contribute to the Tax Master tax payment report not agreeing with daily deposits. The payment for the bill would have been accepted and included in the 11/28/2009 deposit, but would not have been included on the tax payment report until 2/23/2010.

**Criteria:** Payments entered into the tax program should be entered on the date actually paid.

**Effect:** Daily tax payment reports did not agree to daily cash register totals or deposits.

**Cause:** The lack of internal controls within the Sheriff's office allowed the above to occur and not be detected in a timely manner.

LESLIE COUNTY  
PAUL HOWARD, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Period September 29, 2009 Through April 16, 2010  
(Continued)

**INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)**

**2009-07 The Sheriff Should Strengthen Internal Controls Over The Collection Of Add-On Fees (Continued)**

**Recommendation:** We recommend the Sheriff design and implement internal control procedures to ensure collections are made for the proper amounts due.

*Sheriff's Response: This occurred because of the volume of tax payments processed. Our office used both tax master and triplicate bills, doubling the workload. Hopefully next tax season we will be computer only and this will not occur.*

**NONCOMPLIANCE:**

**2009-08 The Sheriff Has A Known Deficit Of \$3,046 In His Official Tax Account**

**Condition:** The Sheriff has a known deficit of \$3,046 in his official tax account.

**Criteria:** As collector of property taxes, the Sheriff assumes full responsibility for all tax collections and complete distribution of these collections to the proper taxing districts. In order to properly distribute 2009 tax collections.

**Effect:** Funds are not available to settle all payables owed by the Sheriff requiring him to deposit \$3,046 from personal funds.

**Cause:** Internal control procedures were not designed to detect discrepancies in daily and monthly accounting records, reconciliations of manual records to computerized records were not performed, and deposits do not appear to have been made intact. As a result, auditors were unable to determine the nature or cause of the deficit.

**Recommendation:** In order to properly distribute 2009 tax collections, we recommend the Sheriff eliminate the deficit in the 2009 tax account with a deposit of \$3,046 from personal funds. The Sheriff should also settle other refunds and payments. We further recommend the Sheriff immediately implement controls to ensure tax collections are processed in a manner that produces reliable accounting records. These controls should include timely reconciliations of manual records to computerized records and depositing daily tax collections intact.

*Sheriff's Response: This deficit is being collected from Districts for refunds due for unpaid bills.*

*Auditor's Response: No supporting documentation was provided to support this assertion. Receivables and liabilities have been considered in the calculation of the \$3,046 deficit. The bank account was closed per the final bank statement provided to auditors.*

LESLIE COUNTY  
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COMMENTS AND RECOMMENDATIONS  
For The Period September 29, 2009 Through April 16, 2010  
(Continued)

**NONCOMPLIANCE: (CONTINUED)**

**2009-09 The Sheriff Should Make Interest Payments To The School And The Fee Account  
In A Timely Manner**

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**Condition:** The Sheriff did not distribute interest earned on tax collections to either the school or the fee account in a timely manner.

**Criteria:** KRS 134.140(3)(b) requires the Sheriff to pay monthly “that part of his investment earnings for the month which is attributable to the investment of school taxes.” KRS 134.140(3)(d) requires the remaining monthly interest to be transferred to the Sheriff’s fee account. The Sheriff should distribute the investment earnings at the same time as monthly tax collections.

**Effect:** The school and the fee account did not receive their share of income in a timely manner.

**Cause:** The lack of internal controls within the Sheriff’s office allowed this instance of noncompliance to occur and not be detected.

**Recommendation:** We recommend the Sheriff implement internal controls that ensure compliance with KRS 134.140(3)(b) and (d). As such, the Sheriff should pay the amount of interest due to the school and fee account on a monthly basis.

*Sheriff’s Response: We will comply.*

